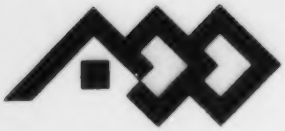
Annual Report



Homeowner
Protection Office

1999 / 2000

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Contents

of the Report

1 Letters of Presentation

2 Message from the Minister

3 Message from the Chairperson

4 Report from the Chief Executive Officer

5 Overview of the Homeowner Protection Office

6 Reconstruction Program

8 Residential Builder Licensing and Mandatory Home Warranties

10 Research and Education

12 Performance Measurement Highlights

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Letters

of Presentation

May 29, 2000

The Honourable Garde B. Gardom
Lieutenant-Governor of the Province of British Columbia

As the minister responsible for housing, it is an honour to present to you the second Annual Report of the Homeowner Protection Office for the period of April 1, 1999 to March 31, 2000.

Sincerely,

Jan Pullinger
Minister of Social Development and
Economic Security and
Minister Responsible for Housing

May 29, 2000

Honourable Jan Pullinger
Minister of Social Development and Economic Security
Province of British Columbia

Minister,

It is a pleasure to submit to you the Annual Report of the Homeowner Protection Office for the year ending March 31, 2000.

Sincerely,

Sharon Manson Singer
Chairperson

Message

from the Minister

The residential construction sector is one of British Columbia's largest economic contributors and employers. Recognizing the importance of this industry and benefits of having several housing related portfolios under one ministry, this year the Homeowner Protection Office (HPO) along with the BC Housing Management Commission and both the housing and building policy branches were brought together under the new Ministry of Social Development and Economic Security.

Jan Pullinger

A home is likely the largest purchase a person ever makes. As the minister responsible for housing, it is crucial that these investments are properly protected and that new residential construction and home warranties now meet certain standards.

The Homeowner Protection Office plays a vital role in preserving the economic security of the residents of British Columbia. The HPO ensures adequate consumer protection for homebuyers, administers financial assistance programs for owners of leaky homes and is responsible for research and education initiatives to bring about improved residential construction and a renewal of confidence in the industry.

This coming year I look forward to working with homeowner groups, industry representatives and the other levels of government to bring about continued assistance to owners and a further recovery of the residential construction sector.

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Jan Pullinger

Minister of Social Development and Economic Security and Minister Responsible for Housing

BRITISH COLUMBIA

Ministry of Social Development and Economic Security

Message

from the Chairperson

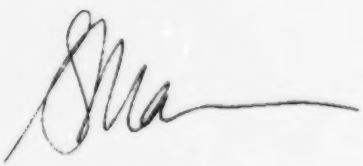
Consumer confidence and quality-built homes are key components to a healthy residential construction industry and economic security for everyone.

The Homeowner Protection Office was established to bring about an improvement to the quality of residential construction as a means to restore consumer confidence that has eroded over a number of years in the province of British Columbia.

Sharon Manson Singer

The Office provides financial assistance and information to homeowners whose lives have been negatively impacted by the leaky condo crisis. No-interest repair loans help homeowners regain their self-sufficiency and dignity by providing the necessary funds for repairs to those who might have otherwise lost their homes.

The HPO's licensing and warranty system also creates greater accountability in the industry. The research and education efforts in the area of building science will also help generate opportunities for success in the residential construction industry over the long-term.



Sharon Manson Singer
Chairperson

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Report

from the Chief Excecutive Officer

This annual report marks the first full fiscal year of the Homeowner Protection Office. During this year, we continued to develop and implement our new programs to bring about increased consumer protection for homebuyers and an improvement in residential construction in B.C.

Shayne Ramsay

The Homeowner Protection Office plays a key role in increasing consumer protection and contributing to a long-term improvement in the quality of residential construction.

The HPO is responsible for:

- providing financial assistance to owners of leaky homes through no-interest repair loans and the new PST Relief Grant Program
- administering and monitoring the residential builder licensing and mandatory third-party home warranty insurance system, and
- a research and education function to better inform consumers and improve the quality of residential construction.

Demand for financial assistance to owners of leaky homes continued to grow at a rapid rate. Several expansions to the Homeowner's Reconstruction Loan Program during the past year, including the introduction of a no-interest repair loan program for leaky housing co-operatives, helped provide financial assistance to a broader range and higher number of affected homeowners. By the March 31, 2000 annual report date, the HPO had approved 2,320 homeowner loans and 15 loans to housing co-operatives totaling $72.2 million in assistance. The province also introduced a PST Relief Grant Program for completed repairs which will provide an estimated $25 million in assistance over the next five to seven years.

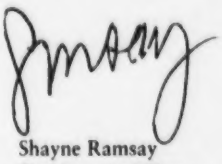
The regulations for residential builder licensing and mandatory third-party home warranty insurance were implemented on July 1, 1999. By the March annual report date 1,600 builders had been licensed. Homebuyers are better protected under this new system because builders must meet minimum standards and, if a construction defect occurs, owners are covered by the strongest home warranty in Canada.

The introduction of regulations for major wall repairs is a high priority for the HPO. The licensing of repair contractors and mandatory third-party warranty insurance for repairs will significantly increase consumer protection for homeowners.

Over the last year we have increased our research and education efforts to bring about a long-term increase in the quality of residential construction throughout the province. The HPO is partnering with several industry groups to fund building science research projects and transfer that knowledge to those in the industry who will apply it in the field. For the coming year the HPO has devoted $260,000 to these studies. We also continue to develop our consumer information programs which now include free public sessions on the process of repairing leaky condos, one-on-one sessions for strata councils regarding our loans program and print materials on a variety of subjects.

In August 1999 the Barrett Commission inquiry into the quality of condominium construction was reconvened. Since the establishment of the HPO comprises the majority of the response to the first set of Barrett Commission recommendations, the Office was requested to make two presentations regarding its program areas and its accomplishments to date. Within a short time period, the majority of the first recommendations have been implemented.

The Homeowner Protection Office plays a key role in increasing consumer protection and contributing to a long-term improvement in the quality of residential construction. Over the next year we will further develop and refine our programs to achieve these objectives.



Shayne Ramsay
Chief Executive Officer

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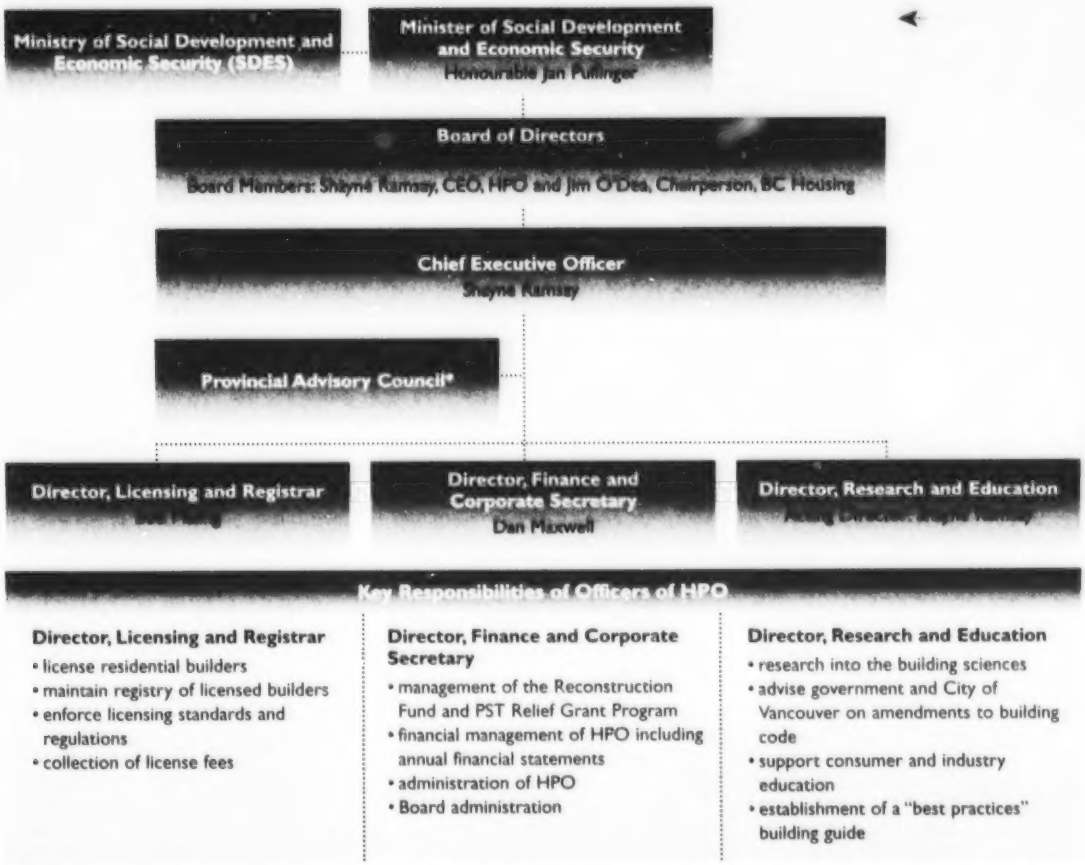
Overview

of the Homeowner Protection Office


Ministry of Social Development and Economic Security (SDES)
Minister of Social Development and Economic Security
Honourable Jan Pullinger
Board of Directors
Board Members: Shayne Ramsay, CEO, HPO and Jim O'Dea, Chairperson, BC Housing
Chief Executive Officer
Shayne Ramsay
Provincial Advisory Council*
Director, Licensing and Registrar
Director, Finance and Corporate Secretary
Dan Maxwell
Director, Research and Education
Key Responsibilities of Officers of HPO
Director, Licensing and Registrar
• license residential builders
• maintain registry of licensed builders
• enforce licensing standards and regulations
• collection of license fees
Director, Finance and Corporate Secretary
• management of the Reconstruction Fund and PST Relief Grant Program
• financial management of HPO including annual financial statements
• administration of HPO
• Board administration
Director, Research and Education
• research into the building sciences
• advise government and City of Vancouver on amendments to building code
• support consumer and industry education
• establishment of a "best practices" building guide

* The Provincial Advisory Council on Homeowner Protection provides policy advice to the CEO relating to the *Homeowner Protection Act* and operation of the HPO.

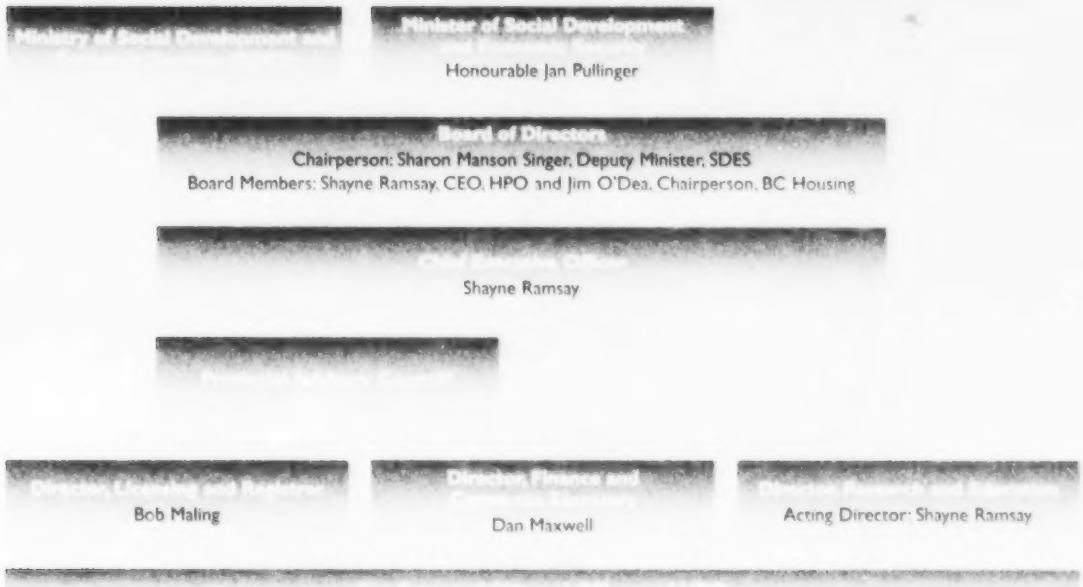
The Homeowner Protection Office is a provincial Crown corporation formed as a response to many of the recommendations from the original Barrett Commission report on the quality of condominium construction in British Columbia. The report prompted the development of the *Homeowner Protection Act* which was passed on July 28, 1998 for the main purposes of strengthening consumer protection for buyers of new homes and improving the quality of residential construction in the province. The *Act* provided for the creation of the Homeowner Protection Office which officially opened on October 1, 1998.

The HPO receives support from the Ministry of Social Development and Economic Security in such areas as policy analysis as well as legislation and regulation development.

The HPO is responsible for:

- residential builder licensing and establishing the framework for and monitoring the provision of mandatory third-party home warranty insurance
- administering a no-interest repair loan program and PST Relief Grant Program for owners of leaky homes, and
- a research and education function designed to benefit the residential construction industry and consumers.

of the Homeowner Protection Office


Ministry of Social Development and
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Honourable Jan Pullinger
Board of Directors
Chairperson: Sharon Manson Singer, Deputy Minister, SDES
Board Members: Shayne Ramsay, CEO, HPO and Jim O'Dea, Chairperson, BC Housing
Shayne Ramsay
Director, Licensing and Registrar
Bob Maling
Director, Finance and
Dan Maxwell
Acting Director: Shayne Ramsay

Director, Licensing and Registrar
- license residential builders
- maintain registry of licensed builders
- enforce licensing standards and regulations
- collection of license fees

Director, Finance and Corporate Secretary
- management of the Reconstruction Fund and PST Relief Grant Program
- financial management of HPO including annual financial statements
- administration of HPO
- Board administration

Director, Research and Education
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- a research and education function designed to benefit the residential construction industry and consumers.

Reconstruction Program

The Reconstruction Program provides financial assistance to owners of leaky homes. Over the last year, the number of homes affected by "leaky building syndrome" continued to escalate. The Homeowner Protection Office responded to the growing needs of homeowners on several occasions by expanding the Homeowner's Reconstruction Loan Program and administering a new PST Relief Grant Program.

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Homeowner's Reconstruction Loan Program

Increased Demand for Repair Loans

The Homeowner's Reconstruction Loan Program provides no-interest loans to owners of leaky condominiums, leaky housing co-operatives and other homes who are not able to finance or pay for repairs related to premature building envelope failures. This continues to be one of the most active programs of the HPO. On average 15 to 20 new loan applications are received every day and about 15 new buildings are added to the loan program each month.

As of the annual report date of March 31, 2000, the HPO had approved 2,320 loans totaling $46.3 million. The average loan was nearly $20,000. Combined with the $25.9 million in repair loans approved for co-operative housing units, a total of $72.2 million in financial assistance has been approved for affected homeowners.

Most homeowners are eligible because they:

- own leaky homes where the building envelope deteriorated sooner than expected
- do not have savings or investments that could be used to pay for repairs (Homeowners do not need to cash in their RRSPs, pension assets or the first $10,000 in liquid assets to qualify. Seniors age 60 years or older can have $250,000 in liquid assets and still qualify.), and
- do not have enough equity in their homes to qualify for conventional loans or they cannot afford the monthly payment on conventional loans.

Loan amounts are based on the cost to repair the building envelope plus any related legal costs. Participating lending institutions provide the principal for the loans. Homeowners make monthly, principal-only payments to the lending institutions at an affordable level set by the HPO. The HPO pays the interest portion of the loan directly to the lending institutions on behalf of the homeowners.

In some instances, the program's minimum monthly payment of $50 represents too much of a burden. In these cases, the HPO approves deferred payment loans that do not require any payments of interest or principal for as long as the homeowner lives in the home. As of March 31, 2000, the HPO had approved $6.5 million in deferred payment loans.

The provincial government has committed up to $75 million in bridge financing to start the Homeowner's Reconstruction Loan Program. The HPO has borrowed about $10 million of this $75 million for the program's immediate cash requirements. This provincial loan will be repaid by the HPO through builder levies collected on multi-unit homes constructed in the same geographic areas where the loans program is accessed — the Lower Mainland, southern Vancouver Island and the Sunshine Coast.

As an indication of the magnitude of the problem faced by homeowners, the HPO was involved with over 400 leaky buildings containing about 28,000 homes in the first 18 months of its operations. Given an average repair cost of about $20,000 per unit, this equates to a total cost of

Homeowner's Reconstruction Loan Program *as of March 31, 2000*
Summary of Loan Approvals

	Number	$ Amount	Average per Unit
No-interest loans through first mortgage lender	1,863	$ 36,346,176	$ 19,509
No-interest loans through the HPO	163	$ 3,502,142	$ 21,486
Deferred payment loans through the HPO	294	$ 6,456,602	$ 21,961
TOTAL	2,320	$ 46,304,920	$ 19,959

TOTAL Co-op Loan Approvals	Number of Co-ops	$ Amount	Average per Co-op
	15	$ 25,884,700	$ 1,725,647
	Number of Units		Average per Unit
	768		$ 33,704

over $500 million to correct building envelope failures. The Barrett Report's estimate of up to $1 billion for the total cost of repairs in the province seems likely at this point.

Loan Program Expanded

As the HPO continued to explore the specific needs of owners of leaky homes, the no-interest repair loan program was expanded to provide financial assistance to a wider range of affected owners.

The March 30, 1999 announcement of the financial collapse of the builders' voluntary warranty program, New Home Warranty of British Columbia Inc., created a unique set of circumstances prompting immediate action from the Homeowner Protection Office to assist homeowners in need. Repair costs which previously would have been covered by New Home Warranty are now eligible to be included in the Reconstruction Loan Program.

In June 1999, the eligibility criteria for the loan program was also revised to allow a greater number of people to qualify for assistance. Homeowners can now have $10,000 in liquid assets and still qualify for a loan, an exemption increase of $5,000. Seniors age 60 or older now can have $250,000 in non-pension assets and still qualify for financial assistance. This exemption allows seniors to protect retirement investments outside of RRSPs.

Co-operative Housing Gets Financial Assistance

In April 1999, the Homeowner Protection Office further expanded the Reconstruction Loan Program to provide assistance to non-profit co-operative housing suffering from premature building envelope failures. The HPO, which developed this program in consultation with the Co-operative Housing Federation of British Columbia, had approved 15 loans representing 768 homes totaling $25.9 million by the March 31, 1999 annual report date. The average repair bill per co-operative totaled $1.7 million or about $33,700 per unit.

Dan Maxwell, Director of Finance and Jolleen Horton, Accounting Supervisor review the demand for the Homeowner's Reconstruction Loan Program

PST Relief Grant Summary *as of March 31, 2000*

Number of applications approved		42
Number of homes represented		1,700
Total amount of approved grants	$	776,104
Average grant amount per application	$	18,479
Average grant amount per home	$	457

PST Relief Grant Introduced

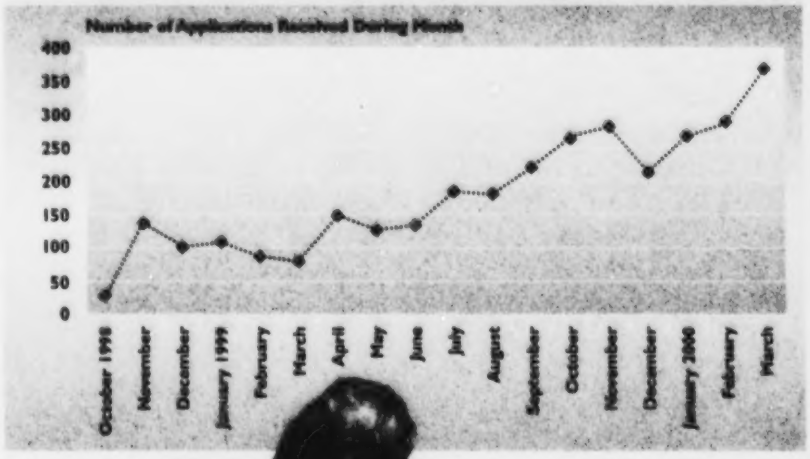
In June 1999 the provincial government announced a provincial sales tax relief grant program for repair costs to leaky homes. The PST Relief Grant Program, which is administered through the HPO, will provide an estimated $25 million in financial assistance to owners of leaky homes over the next five to seven years. Repairs completed on or after July 28, 1998, the date the *Homeowner Protection Act* was passed, are eligible for the grant.

By March 31, 2000, 42 PST Relief Grant applications involving 1,700 homes had been approved totalling over $776,000. The financial assistance provided averaged about $18,500 per application or about $460 per homeowner. The number of applications approved for this program will continue to rise in the years to come as repairs are completed to affected buildings.

Loans Approved Sorted by Year of Construction

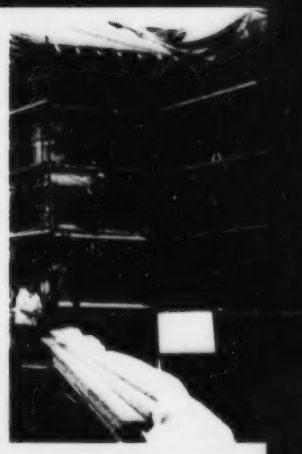
Year of Construction	Number of Buildings with Loans Approved	Percentage of Total
Unknown	5	2.2%
1997	2	0.9%
1996	4	1.7%
1995	10	4.4%
1994	39	17.0%
1993	35	15.2%
1992	22	9.6%
1991	17	7.4%
1990	18	7.8%
1989	31	13.5%
1988	18	7.8%
1987	3	1.3%
1986	7	3.0%
1985	5	2.2%
1984	4	1.7%
<1984	10	4.3%
Total	230	100.0%

Demand for Homeowner's Reconstruction Loan Program



Reconstruction

Program



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As of the annual report date of March 31, 2000, the HPO had approved 2,320 loans totaling $46.3 million. The average loan was nearly $20,000. Combined with the $25.9 million in repair loans approved for co-operative housing units, a total of $72.2 million in financial assistance has been approved for affected homeowners.

Most homeowners are eligible because they:

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Average grant amount per home	$ 457

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By March 31, 2000, 42 PST Relief Grant applications involving 1,700 homes had been approved totalling over $776,000. The financial assistance provided averaged about $18,500 per application or about $460 per homeowner. The number of applications approved for this program will continue to rise in the years to come as repairs are completed to affected buildings.

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Total	230	100.0%

Demand for Homeowner's Reconstruction Loan Program

Don Mascall, Director of Finance, and Jolleen Hoehn, Accounting Supervisor, review the Journal for the Homeowner Reconstruction Loan Program

Residential Builder Licensing

and Mandatory Home Warranties

The establishment of a residential builder licensing and mandatory, third-party home warranty system are provided for by the *Homeowner Protection Act*. This year the Homeowner Protection Office implemented this new system province-wide to increase consumer protection and bring about an improvement in the quality of residential construction.

New Licensing and Mandatory Warranty System Implemented

The regulations for residential builder licensing and mandatory third-party home warranty insurance were implemented on July 1, 1999 after a two-month delay to allow time for the 1,600 registered builders of the failed builders' warranty program, New Home Warranty, to register with a home warranty insurance company. As of July 1, 1999, builders must be licensed with the Homeowner Protection Office and provide mandatory home warranty insurance before they are able to get a building permit. The licensing and warranty provisions of the *Act* are designed to work in tandem to strengthen consumer protection. The two systems ensure that builders meet minimum standards, and if a construction defect occurs, consumers will be protected by the strongest warranty in Canada.

By the March 31, 2000 annual report date, 1,600 builders were licensed to construct new homes in the province. A public registry of licensed residential builders is available on the HPO Web site.

The new mandatory home warranty insurance coverage includes: two years on labour and materials, five years on the building envelope, including water penetration, and ten years on structure. Home warranty insurance can now only be provided by insurance companies that are authorized by the Financial Institutions Commission (FICom) and meet the requirements set out in the *Homeowner Protection Act*. Strong underwriting practices and required technical reviews of projects prior to construction will help bring about an improvement in the quality of residential construction. Currently there are five insurance companies able to offer home warranties in British Columbia.

Residential Construction Statistics *as of March 31, 2000*

Number of Licensed Residential Builders	1,600
Building Permits Issued: July 1, 1999 – March 31, 2000	
Multi-Unit Dwelling (Number of Units)	682
Detached Dwellings	1,945
Owner-Builder Exemptions	1,281
HPO Exemptions	479
TOTAL	**4,387**

We are currently in a transition period where some of the newly constructed homes on the market will have the ten-year mandatory warranty as required by the *Act* while other new homes and homes yet to be constructed under building permits applied for before July 1, 1999 will have a variety of different warranties — or even no home warranty at all. The HPO has developed an information bulletin to inform prospective purchasers about the warranty situation during this transition period.

Enforcing the New System

As the new licensing and mandatory warranty system was introduced, a full time Senior Compliance Officer was added to the existing HPO enforcement team and plans to hire more compliance officers were made to protect consumers and ensure adherence to the *Homeowner Protection Act* and regulations.

The HPO has observed a high level of abuse of the owner-builder exemption from licensing and warranty. Of the 3,226 single, detached dwelling building permits issued during the first nine months of the new system, 1,281 or 40 per cent involved owner-builder exemptions from licensing and warranty.

Abuse of the owner-builder exemption affects both homeowners and industry because purchasers

of owner-built homes do not have the benefit of home warranty insurance, unfair competition is created between non-licensed builders and licensed builders who pay the necessary licensing and warranty fees and underwriting pools for warranty providers are smaller than they should be which will eventually result in higher premiums for home warranty insurance. Further steps are being taken, such as increased enforcement and HPO distribution of the owner-builder exemption forms, to modify the existing system to ensure increased consumer protection and create a more level playing field for the residential construction industry.

Regulations for the Mediation of Residential Construction Disputes Introduced

Resolving residential construction disputes can be a costly and time consuming process involving many parties. The HPO has worked with the Attorney General's Dispute Resolution Office to develop the Notice to Mediate (Residential Construction) Regulations for residential construction disputes which were passed in May 1999.

These regulations are retroactive and permit any party to a residential construction dispute to compel the other parties to participate in a structured mediation session. Mediation is often a more cost effective and rapid method for solving residential construction disputes when compared to the court system. A guide targeted to both the residential construction industry and homeowners called *Options for Resolving Residential Construction Disputes* is also available through the HPO.

Consumer Protection Planned for Building Envelope Repairs

The introduction of regulations for building envelope repairs is the HPO's next priority. Repair contractor licensing and mandatory third-party warranties will help ensure that repairs are: effective, long-term solutions, performed by qualified contractors and backed by third-party warranty insurance.

We look forward to working with the residential construction industry, local governments and homeowner groups as we implement new programs and modify existing ones to bring about enhanced consumer protection and an increase in the quality of residential construction in the province of British Columbia.

Home Warranty Insurance Providers Approved by FICom and Meeting the Requirements of the *Homeowner Protection Act*

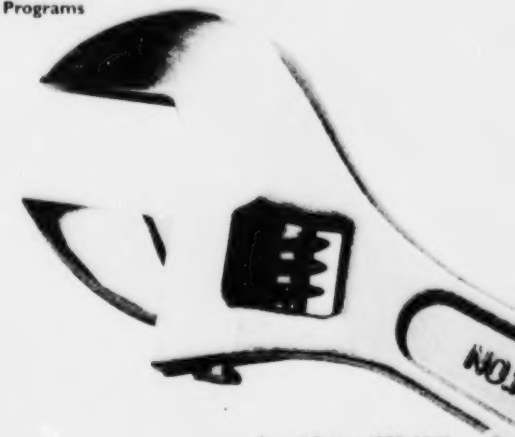
Commonwealth Insurance represented by **Willis Corroon Melling Limited**

Kingsway Insurance represented by **Residential Home Warranty Company of Canada**

London Guarantee Insurance Company

Royal & SunAlliance represented by **Wylie-Crump Limited**

Wellington Insurance Company represented by **National Home Warranty Programs**



Residential Builder Licensing

and Mandatory Home Warranties

The establishment of a residential builder licensing and mandatory, third-party home warranty system are provided for by the *Homeowner Protection Act*. This year the Homeowner Protection Office implemented this new system province-wide to increase consumer protection and bring about an improvement in the quality of residential construction.

New Licensing and Mandatory Warranty System Implemented

The regulations for residential builder licensing and mandatory third-party home warranty insurance were implemented on July 1, 1999 after a two-month delay to allow time for the 1,600 registered builders of the failed builders' warranty program, New Home Warranty, to register with a home warranty insurance company. As of July 1, 1999, builders must be licensed with the Homeowner Protection Office and provide mandatory home warranty insurance before they are able to get a building permit. The licensing and warranty provisions of the *Act* are designed to work in tandem to strengthen consumer protection. The two systems ensure that builders meet minimum standards, and if a construction defect occurs, consumers will be protected by the strongest warranty in Canada.

By the March 31, 2000 annual report date, 1,600 builders were licensed to construct new homes in the province. A public registry of licensed residential builders is available on the HPO Web site.

The new mandatory home warranty insurance coverage includes: two years on labour and materials, five years on the building envelope, including water penetration, and ten years on structure. Home warranty insurance can now only be provided by insurance companies that are authorized by the Financial Institutions Commission (FICom) and meet the requirements set out in the *Homeowner Protection Act*. Strong underwriting practices and required technical reviews of projects prior to construction will help bring about an improvement in the quality of residential construction. Currently there are five insurance companies able to offer home warranties in British Columbia.

[redacted]

[redacted]	[redacted]
Building Permits Issued: July 1, 1999 – March 31, 2000	
Multi-Unit Dwelling (Number of Units)	682
Detached Dwellings	1,945
Owner-Builder Exemptions	1,281
HPO Exemptions	479
TOTAL	**4,387**

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Bob Maling
Director of Licensing and Registrar

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Research and Education

Providing opportunities to see cross-sections of wall assemblies is one way people can learn about rain screen systems.

The research and education function of the HPO is designed to increase the quality of residential construction in the long-term and provide information to consumers which will allow them to make more informed decisions. Specifically, the research and education section, in cooperation with industry, professional associations and homeowners, provides resources and information in the areas of building science issues, cost-effective building techniques, best practices for retrofitting housing, building code changes and current consumer housing issues.

Provincial Advisory Council on Homeowner Protection

- Architectural Institute of BC
- Association of Professional Engineers and Geoscientists
- BC Construction Association
- BC Federation of Labour— 2 representatives
  - United Association of Plumbers and Pipefitters
  - Provincial Council of Carpenters
- Building Officials Association of BC
- Canadian Home Builders' Association of BC
- City of Vancouver
- Condominium Home Owners' Association – 2 representatives
- Home Warranty Insurance Company
- Independent Contractors and Businesses Association of BC
- Union of British Columbia Municipalities
- Urban Development Institute

The research and education component of the HPO is funded from contributions from sector organizations and from builder licensing fees. This year the HPO and the Architectural Institute of B.C. signed a memorandum of understanding for an AIBC contribution of $250,000 to the research and education mandate of the HPO.

Provincial Advisory Council on Homeowner Protection Formed

The *Homeowner Protection Act* provides for the establishment of a Provincial Advisory Council (PAC) on Homeowner Protection which was formed this year. PAC was created to advise the HPO regarding residential construction in B.C., research and education initiatives, and consumer information programs. The 14-member council includes representatives from consumer groups, architects, engineers, builders and developers, home warranty insurance companies, labour and local governments.

Building Envelope Related Research and Information

The HPO is partnering with various agencies, industry and CMHC to conduct building envelope research. These projects include:

- **High-Rise Envelope Details Study** — This study will review details and systems that have performed, as well as details and systems that have not performed in the high-rise housing stock.
- **Building Code Issues** — The Provincial Advisory Council on Homeowner Protection formed a task group to evaluate whether or not there are issues within the BC Building Code that should be addressed relating to the construction of building envelopes in the Coastal Climate Zone. In February 1999 the HPO held a one-day workshop on building code issues which was attended by over 40 individuals representing industry, government and professional organizations. Recommendations from this workshop will be fed into research initiatives and future code development.
- **Monitoring New and Remediated Wall Assemblies** — The purpose of this program is to pilot a protocol which monitors the performance characteristics of both new wall construction and remediated wall construction using rain screen technology. The pilot will assist in undertaking monitoring of additional projects.
- **Leak-Proofing Windows** — The Leak-Proofing Windows study will address various issues including manufacturing of windows, transportation and storage, installation techniques and regulatory standards.
- **Envelope Drying Rates Analysis** — This research project undertaken through the Building Envelope Research Consortium (BERC) at Forintek will provide data on the drying rates of various wall assemblies under controlled laboratory conditions.
- **Builders' Toolbox** — Curriculum development for a course on best practices and moisture management principles is currently underway. The course is based on the *Best Practices Guide* and is targeted to builders, site superintendents and trades.
- ***Land Use Planning and Weather Protected Buildings*** — This publication serves as a best choices guide for local governments to review their land use bylaws and other policy or design related documents to determine how they impact the development of improved wall assemblies.

The research and education component of the HPO is funded from contributions from sector organizations and from builder licensing fees.

Research Projects	Total Project Cost	HPO Contribution	Partnering Agencies
High-Rise Envelope Details Study	$ 75,000	$ 22,500	CMHC, City of Vancouver and Industry
Building Code Issues	$ 30,000	$ 30,000	—
Monitoring New and Remediated Wall Assemblies	$ 80,000	$ 30,000	BC Housing and CMHC
Leak-Proofing Windows	$ 30,000	$ 15,000	CMHC and BC Housing
Envelope Drying Rates Analysis	$ 568,000	$ 60,000	BC Housing, CMHC, Forintek, HAL Industries, Dupont, Polygon and several material suppliers
Builders' Toolbox	$ 120,000	$ 40,000	CMHC and Canadian Home Builders' Association (CHBA)
Land Use Planning and Weather Protected Buildings	$ 30,000	$ 30,000	—
TOTAL	$ 953,000	$ 257,500	

Consumer Education and Information

This year the HPO initiated a free Repair Process Seminar program for owners of leaky homes and property managers. Topics include the no-interest repair loan program, legal considerations, technical aspects and the process required to repair building envelopes. By the March 2000 annual report date, the HPO had held eight repair process seminars in the Lower Mainland and on Vancouver Island which were attended by 575 people.

The HPO also continued to offer one-on-one sessions with strata councils to provide information about the Homeowner's Reconstruction Loan and PST Relief Grant programs. Usually held in the evening or on weekends to accommodate the schedules of strata council members, the HPO visited 125 strata councils to provide personalized service to homeowners in need of assistance.

In addition to the information sessions offered to owners, print materials have been developed to address the specific needs of consumers. Some of these publications include:

- ***Buying a New Home: A Consumer Protection Guide*** — This guide provides information and guidance to prospective buyers. Topics include information on home warranties, residential builder licensing, hiring inspectors and the role of lawyers and lenders in transactions.
- ***Managing Major Repairs: A Condominium Owner's Manual*** — The HPO, in cooperation with the Ministry of Municipal Affairs and CMHC, produced *Managing Major Repairs*, a 100-page guide which provides condominium owners with step-by-step detailed information on the process to repair a leaking building. The Urban Development Institute and the Condominium Home Owners' Association also assisted in the development and review of the guide.
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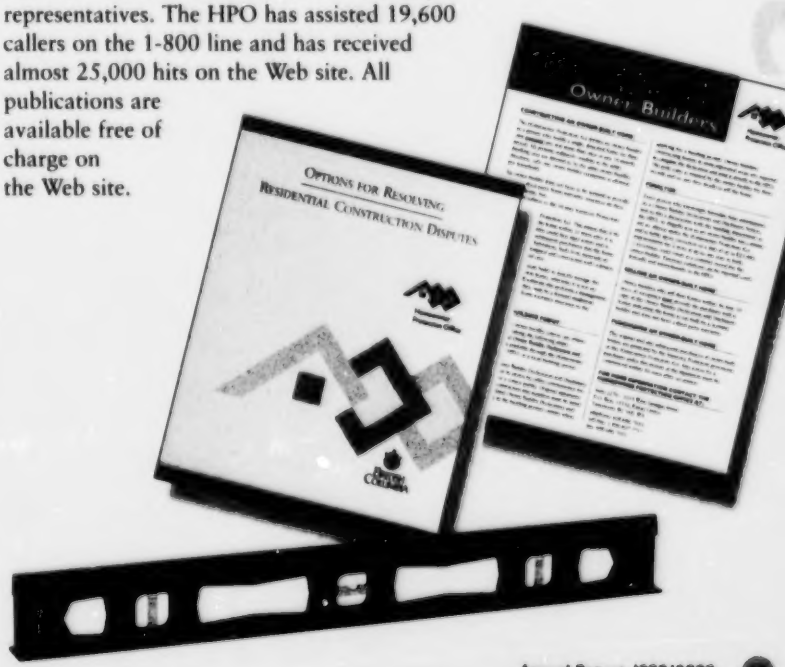
Access to Information

A toll-free information line and the HPO Web site are available to consumers and industry representatives. The HPO has assisted 19,600 callers on the 1-800 line and has received almost 25,000 hits on the Web site. All publications are available free of charge on the Web site.



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Performance

Measurement Highlights

Issue

Inadequate quality of residential construction and insufficient consumer protection

Inputs

Homeowner Protection Office: staff, financial resources and facilities

	Reconstruction	Licensing and Warranties	Research and Education
Programs			
Activities	• Loan applications received • PST Relief Grant introduced, applications received • Advice on financial assistance provided	• Introduction, enforcement and monitoring of standards and regulations • Mediation regulations for residential construction disputes passed • Consultation for repair regulations	• Information sessions • Publications developed • Research projects planned • Consumer and industry information inquiries
Outputs	• 2,320 homeowner loans approved for $46.3 million • 15 co-operative housing loans (768 units) approved for $25.9 million • PST Relief Grants approved for $776,000	• 1,600 builders licensed • Public registry of builders on Web site • New homes built with warranty insurance • Enforcement efforts increased • Mediation of construction disputes • Pending regulations for licensing and warranty for repairs	• 8 repair process seminars attended by 575 people • 125 one-on-one sessions for strata councils given • Provincial Advisory Council on Homeowner Protection formed • Publications available • Building science surveys underway • 19,600 calls to 1-800 line, nearly 25,000 hits to Web site
Outcomes	• Repairs underway or completed • Repairs can be completed more quickly • Homeowners keep homes who would otherwise have lost them	• Only qualified builders get permits • Risk secured by insurance companies • More control of quality of construction • Consumers better protected	• Increased awareness of issues, process to repair buildings and assistance available • Increased construction standards over time • Decreased number of building envelope failures

Information Available

Consumer Related

- *Buying a New Home: A Consumer Protection Guide*
- *Options for Resolving Residential Construction Disputes*
- *Managing Major Repairs, A Condominium Owner's Manual*
- Managing Leaky Condo Repairs – A video (available in English and Cantonese)
- Homeowner's Reconstruction Loan Program Guide (English and Chinese) and application package
- PST Relief Grant application package
- Information bulletins
  - Understanding Warranties, Important Information for Homebuyers
  - Highlights – No-interest Loans for Leaky Co-operatives
  - Highlights of the PST Relief Grant Program
  - Four-Step Approach to Managing a Major Repair
  - Selecting a Building Envelope Consultant
  - Selecting a Contractor
  - Selecting a Lawyer
  - Financing the Building Envelope Repair
  - Homeowner's Reconstruction Loan Program
  - *Condominium Act*, Responsibilities of Strata Councils
  - Leaky Condo Alert - Important Information on Filing Leaky Condo Claims
  - Assistance to Chinese Speaking Callers (English and Chinese)

Residential Construction Sector Related

- *Land Use Planning & Weather Protected Buildings, A Best Choices Guide for Local Government*
- Residential Builder Licence Application and Agreement
- Residential Builder Licence Renewal Application and Agreement
- Building BC newsletter
- Public registry of licensed residential builders – Web site only
- Commission of Inquiry into the Quality of Condominium Construction in British Columbia Part 1, Part 2 Vol. 1, Part 2 Vol. 2 – Web site only
- Information bulletins
  - How to Become a Licensed Residential Builder
  - Important Information for Owner-Builders
  - List of Home Warranty Insurance Providers

Acts and Regulations

- *Homeowner Protection Act*
- Consolidated *Homeowner Protection Act* Regulation [B.C. Reg 29/99]
- Notice to Mediate (Residential Construction) Regulation [B.C. Reg. 152/99] – Web site only
- Information bulletins
  - Highlights of the *Homeowner Protection Act* Regulation
  - Highlights, Notice to Mediate for Residential Construction Disputes

Homeowner Protection Office

Telephone
604 646 7050 *switchboard*
604 646 7055 *information line*
or
1 800 407 7757 *toll-free*

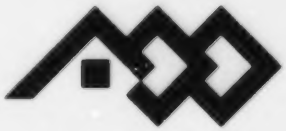
Mail
Homeowner Protection Office
PO Box 11132 Royal Centre
Vancouver BC V6E 3P3

In Person
Suite 2270
1055 W Georgia St
Vancouver BC

Web site
www.hpo.bc.ca

Email
hpo@hpo.bc.ca *general*
buildingbc@hpo.bc.ca
licensing section only

Financial Statements



Homeowner
Protection Office

March 31, 2000

Contents

of the Financial Statements

1 **Auditor's Report**

2 **Statement of Management Responsibility**

3 **Balance Sheet**

4 **Statement of Revenues and Expenditures and Deficit**

5 **Statement of Cash Flows**

6 **Notes to Financial Statements**

12 **Schedule 1- Revenues and Expenditures by Program**

Report of the Auditor General of British Columbia

To the Board of Directors
of Homeowner Protection Office, and

To the Minister of Social Development
and Economic Security,
Province of British Columbia:

I have audited the balance sheet of the *Homeowner Protection Office* as at March 31, 2000 and the statement of revenues and expenditures and deficit and the statement of cash flows for the year ended March 31, 2000. These financial statements are the responsibility of the Office's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Homeowner Protection Office* as at March 31, 2000 and the results of its operations and its cash flows for the year ended March 31, 2000, in accordance with generally accepted accounting principles.

Wayne Strelioff

Victoria, British Columbia
May 5, 2000

Wayne Strelioff, CA
Auditor General

HOMEOWNER PROTECTION OFFICE

Statement of Management Responsibility

The financial statements of the Homeowner Protection Office (the "Office") have been prepared by management in accordance with generally accepted accounting principles, consistently applied and appropriate in the circumstances. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the notes to financial statements.

Management depends upon a system of internal controls that provide reasonable assurance, on a cost-effective basis, that the financial information is reliable and accurate. The Office's external auditors independently perform such tests of the system of internal controls as they consider necessary for the purpose of expressing their opinion on the financial statements.

The Audit and Finance Committee, which is comprised of directors who are not employees, oversees management's discharge of its financial reporting responsibilities. The committee meets periodically with management and the external auditors to discuss auditing, financial reporting and internal control matters. The external auditors have access to the Audit and Finance Committee without management's presence.

Shayne Ramsay
Chief Executive Officer

Dan Maxwell
Director of Finance and
Corporate Secretary

May 5, 2000

HOMEOWNER PROTECTION OFFICE

Balance Sheet

As at March 31, 2000

	2000 ($000's)	1999 ($000's) (Note 12)
ASSETS		
CURRENT ASSETS		
Cash	$ 534	$ 644
Cash for reconstruction and PST programs	1,478	5,730
Due from Province of British Columbia (note 5)	29	52
Accounts receivable	151	62
Prepaid expenses	23	2
Current portion of loans receivable	172	3
	2,387	6,493
LOANS RECEIVABLE (note 3)	2,362	203
CAPITAL ASSETS (note 6)	337	349
	$ 5,086	$ 7,045
LIABILITIES AND DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 217	$ 239
Loss provision for CMHC-insured loans	864	125
Due to Province of British Columbia (note 7)	10,055	8,142
	11,136	8,506
CONTINGENCIES (note 8)		
COMMITMENTS (note 9)		
DEFICIT	(6,050)	(1,461)
	$ 5,086	$ 7,045

Approved by the Board:

Chair

Member

The accompanying notes are an integral part of these financial statements.

HOMEOWNER PROTECTION OFFICE

Statement of Revenues and Expenditures and Deficit

For the year ended March 31, 2000

	2000 ($000's)	1999 ($000's) (Note 12)
Revenues		
License fees	$ 1,073	$ -
Provincial contributions	901	500
Reconstruction levies	581	-
Donations	285	23
Interest	200	132
Loan discount recoveries	148	2
Publication sales	3	-
	3,191	657
Expenditures		
Reconstruction program	5,201	1,311
PST Relief Grant program	849	-
Licensing and registrar	741	253
Finance and administration	701	453
Research and education	288	101
	7,780	2,118
Loss (Schedule 1)	(4,589)	(1,461)
Deficit, beginning of year	(1,461)	-
Deficit, end of year	$ (6,050)	$ (1,461)

The accompanying notes are an integral part of these financial statements.

HOMEOWNER PROTECTION OFFICE

Statement of Cash Flows

For the year ended March 31, 2000

	2000 ($000's)	1999 ($000's) (Note 12)
Cash flows from Operating Activities		
Cash received from:		
Residential builders for license fees	$ 1,058	$ -
Province of British Columbia for PST program	901	-
Residential builders for reconstruction levies	473	-
Partners in funding research and education activities	260	23
Interest	222	80
Homeowners for principal-only payments on loans	114	-
Publication sales	3	-
Cash paid to:		
Homeowners for reconstruction loans	(4,970)	(623)
Suppliers and employees	(2,964)	(1,139)
Homeowners for PST Relief Grants	(776)	-
Financial institutions for interest on CMHC insured loans	(484)	(23)
Financial institutions for defaults on CMHC insured loans	(34)	-
Cash flows used in operating activities	(6,197)	(1,682)
Cash flows from Investing Activities		
Purchase of capital assets	(134)	(444)
Cash flows used in investing activities	(134)	(444)
Cash flows from Financing Activities		
Cash received from Province of British Columbia	-	500
Proceeds from borrowing	1,969	8,000
Cash flows from financing activities	1,969	8,500
Net Increase in Cash (Decrease in Cash)	(4,362)	6,374
Cash, beginning of period	6,374	-
Cash, end of period	$ 2,012	$ 6,374
Represented by:		
Cash	534	644
Cash for reconstruction and PST programs	1,478	5,730
	$ 2,012	$ 6,374

The accompanying notes are an integral part of these financial statements.

1. General

The Homeowner Protection Office (the "Office") was created in 1998 under the *Homeowner Protection Act* S.B.C. 1998, c. 31 (the Act). The purposes of the Office are:

- to license residential builders and other persons required to be licensed under the Act;
- to carry out research and education respecting residential construction in British Columbia; and
- to administer the Reconstruction Program to provide financial assistance to eligible homeowners for home reconstruction.

Effective July 1, 1999, all persons who wish to carry on the business of a residential builder in British Columbia must obtain a licence from the Office's Registrar. The license fees collected fund all of the operations of the Office except for the Reconstruction Program. The research and education function has a mandate to disseminate information to the residential construction industry and to homeowners in areas such as cost effective building techniques, best practices for retrofitting housing, building code changes and consumer education. The Reconstruction Program provides subsidized interest loans, no-interest loans and deferred payment loans to owners of water-damaged homes who are not able to finance or pay for repairs. A reconstruction levy is collected on residential units in multi-unit buildings constructed after July 1, 1999 in the coastal climatic zone. The Office also administers the Provincial Sales Tax (PST) Relief Grant Program on behalf of the Province. The Province provides a contribution to the Office to cover the administration costs and grant payments of the program.

The expenditures and revenues of these programs are reported in Schedule 1.

2. Significant Accounting Policies

The accompanying financial statements are prepared in accordance with generally accepted accounting principles that are considered appropriate for the Office. The significant accounting policies are noted below.

a) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Significant areas requiring the use of management estimates relate to the determination of the present value of loans receivable, loan loss provision, and amortization of capital assets. Actual results could differ from the estimates.

b) Capital assets

Capital assets are recorded at cost and amortized on a straight line basis over their estimated useful lives as follows:

Computer software and hardware	Three years
Leasehold improvements	Over the lease term
All other capital assets	Five years

Assets costing less than $1,000 are expensed in the year of purchase.

c) No-interest loans and deferred payment loans

No-interest loans and deferred payment loans provided by the Office are concessionary loans in that no interest is charged to the homeowner. These loans are recorded at their net present value (net of grant component) less any provision required for doubtful collection. Net present value is determined by discounting no-interest loans over their terms and discounting deferred payment loans over 20 years at the provincial borrowing rate for equivalent terms. Present value discounts are recorded as grant expense. Principal repayments are first applied to the reduced loan balance (net present value) and then recorded as revenue (loan discount recoveries) when received.

d) Loss provision for CMHC-insured loans

Loans provided by financial institutions under the Reconstruction Program do not appear on these financial statements. However, the Office has indemnified the Canada Mortgage and Housing Corporation (CMHC) for any claims that may be made against the CMHC insurance on these loans. The Office records a 4% loan loss provision on these loans.

e) Federal and provincial taxes

The Office is exempt from corporate income taxes and is not subject to the Goods and Services Tax.

3. Reconstruction Program

Under the Act, money paid to the credit of the Reconstruction Program must only be used for the purposes of the program.

Under the Reconstruction Program, financial assistance is provided to homeowners who cannot afford to pay for repairs to their water-damaged homes. The financial assistance is secured by mortgages registered against the title of the home to be repaired. This financial assistance is provided in the form of subsidized interest loans, no-interest loans or deferred payment loans as follows:

a) Subsidized interest loans through the first mortgage lender

i) Condominiums

Under agreements with financial institutions and CMHC, the Office approves loans to homeowners for repairs to water-damaged homes and issues CMHC insurance certificates for these loans. The loan is advanced by the financial institution that holds a first mortgage on the property and, as a consequence, does not appear on these financial statements. The homeowner makes monthly principal-only payments to the financial institution. The Office pays interest on the homeowner's behalf to the financial institution at the prime rate of the lender. This interest is reported as interest subsidy on Schedule 1.

The Office has indemnified CMHC for any claims that may be made against the CMHC insurance on these loans. The Office records a loan loss provision on the balance sheet for the estimate of the claims that may be made.

ii) Housing Co-operatives

Under an agreement with CMHC, the Office approves loans to water-damaged housing co-operatives. The loan is advanced by CMHC who is also the first mortgage lender. The housing co-operative makes a monthly principal-only payment to CMHC. The Office pays interest on the housing co-operative's behalf to CMHC. While the repairs are underway and prior to the interest adjustment date (IAD), the Office pays interest at CMHC's Construction Floating Rate. At IAD, the interest rate on a loan is set for an initial five-year term to equal the bid yield of a five-year Government of Canada benchmark bond with approximately five years remaining in its term plus not more than 0.75 percent per annum, compounded semi-annually not in advance. This benchmark is also used to set the interest rate for the second and final five-year term. This interest is included in interest subsidy on Schedule 1.

The Office has not provided guarantees or indemnities for any of the loans to housing co-operatives. The only obligation of the Office with respect to these loans is to pay interest. Consequently, neither the loans nor a provision for losses appear on the balance sheet of the Office.

b) No-interest loans through the Office

In cases where there is no first mortgage or where the first mortgage lender refuses to provide a loan, the Office provides a no-interest loan to the condominium homeowner. The homeowner makes principal-only payments to the Office. Loans advanced directly by the Office are not CMHC insured. The present value of these loans is included in loans receivable on the balance sheet.

c) Deferred payment loans through the Office

In circumstances where eligible condominium homeowners qualify for no-interest loans under the Reconstruction Program but whose income is such that they cannot afford at least $50 per month as a principal-only loan payment, the Office may approve a deferred payment loan. Deferred payment loans do not accrue interest and do not require any payments to be made for as long as the homeowner lives in the home. If the net sales proceeds of the home, after repaying other mortgages in priority to the deferred payment loan and paying reasonable legal and real estate expenses, are not sufficient to fully repay the deferred payment loan then the shortfall will be forgiven. The present value of these deferred payment loans is included in loans receivable on the balance sheet.

As at March 31, 2000 the Office had approved financial assistance as follows:

	Number of Loans	Total Financial Assistance ($000)	Financial Assistance Reported on the Balance Sheet of the Office ($000)
Subsidized interest loans			
- Condominiums	1,863	$36,346	$ -
- Housing co-operatives	15	25,885	-
No-interest loans	163	3,502	3,502
Deferred payment loans	294	6,457	6,457
Total loans approved	2,335	72,190	9,959
Less:			
Loans approved but not yet issued			
- Condominiums		(14,741)	(4,345)
- Housing co-operatives		(25,885)	-
Allowance for impaired loans		(3,809)	(2,944)
Loan write-offs		(56)	(22)
Loan repayments		(1,323)	(114)
Loans receivable		$26,376	2,534
Less: current portion			(172)
Loans receivable			$ 2,362

Loans were approved but not issued in instances where strata corporations or housing co-operatives had not yet signed contracts for the repair of the water-damaged building or had not yet passed the final special assessment for the cost of the repairs.

The 15 housing co-operatives contain 768 homes.

4. Residential Builder Licence Applications

As at March 31, 2000 the Office had received and processed applications for residential builder licences as follows:

	Number
Applications approved	1,600
Applications pending decision	44
Total applications received	1,644

5. Due from the Province of British Columbia

Under an agreement with the Province of British Columbia, the Office invests the balance of its overnight bank deposits in the Province's offset interest program. Approximately one month after the interest is earned, this program pays interest to the Office at the prime rate of the Royal Bank of Canada less 1.75%.

6. Capital assets

	March 31, 2000 ($000's)			March 31, 1999 ($000's)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer software	$ 113	$ (57)	$ 56	$ 39
Computer hardware	133	(76)	57	63
Office furniture and equipment	228	(83)	145	152
Leasehold improvements	104	(25)	79	95
Total	$ 578	$ (241)	$ 337	$ 349

7. Due to the Province of British Columbia

The Office has the authority to borrow up to a maximum of $75 million from the Province to fund operations and the Reconstruction Program. The Office's Board of Directors has approved borrowing to a maximum of $15 million.

Of the $9.969 million borrowed by the Office, $2 million is due April 3, 2000 with interest accrued at 4.85% per annum and $7.969 million is due on April 20, 2000 with interest accrued at 5.08% per annum.

8. Contingencies

The Office has indemnified CMHC for any claims that may be made against the CMHC insurance on subsidized interest loans provided by financial institutions and totalling up to $250 million.

9. Commitments

The Office is committed in the normal course of business to paying interest on homeowners' behalf to financial institutions at the prime rate of the lender.

The Office has minimum rental obligations under operating leases for office space as follows:

Fiscal Year	($000's)
2001	$ 179
2002	$ 179
2003	$ 124
2004	$ 124
2005	$ 103
Total	$ 709

10. Related Party Transactions

In the normal course of operations the Office acquired goods and services from the Province and certain crown corporations, under prevailing trade terms.

11. Pension Plan

The Office and its employees contribute to the Public Service Pension Plan in accordance with the *Pension (Public Service) Act*. The Plan is a defined benefit plan and is administered by the Superannuation Commission of the Province of British Columbia. The financial position of the Plan is described in the financial statements of the Plan included in the Public Accounts of the Province.

The Province of British Columbia has statutory responsibility for any unfunded liability. The most recent actuarial evaluation has determined the Plan is in a surplus position. The Office received a rebate of employer contributions of $38,057, which was credited to salaries and wages.

12. Comparative Figures

The 1999 figures represent operations for the period from incorporation September 21, 1998 to March 31, 1999.

Certain figure presentation for comparative purposes have been reclassified to conform with the current year's presentation.

HOMEOWNER PROTECTION OFFICE

Schedule 1

Revenues and Expenditures by Program

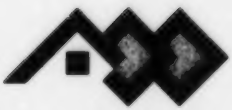
For the year ended March 31, 2000

	Reconstruction Program		PST Relief Grant Program	
	2000 ($000's)	1999 ($000's)	2000 ($000's)	1999 ($000's)
Revenue				
License fees	$ -	$ -	$ -	$ -
Provincial contributions	-	-	901	-
Reconstruction levies	581	-	-	-
Donations and other	148	25	-	-
Interest	150	114	11	-
	879	139	912	-
Expenditures				
Reconstruction loan grants	2,675	419	-	-
Salaries and wages	502	260	42	-
Loss provision on CMHC-insured loans	795	125	-	-
PST Relief Grants	-	-	776	-
Interest subsidy	484	23	-	-
Interest expense	314	124	1	-
Office and other	119	71	13	-
Legal and professional fees	147	134	1	-
Communications and printing	50	63	3	-
Rent and utilities	64	36	7	-
Amortization	51	56	6	-
Research studies	-	-	-	-
	5,201	1,311	849	-
Income (Loss)	$ (4,323)	$(1,172)	$ 63	$ -

HOMEOWNER PROTECTION OFFICE

Schedule 1
Revenues and Expenditures by Program
For the year ended March 31, 2000

Licensing & Registrar		Finance & Administration		Research & Education		Total	
2000 ($000's)	1999 ($000's)	2000 ($000's)	1999 ($000's)	2000 ($000's)	1999 ($000's)	2000 ($000's)	1999 ($000's)
$ 491	$ -	$ 582	$ -	$ -	$ -	$ 1,073	$ -
-	139	-	295	-	66	901	500
-	-	-	-	-	-	581	-
-	-	-	-	288	-	436	25
16	-	20	18	3	-	200	132
507	139	602	313	291	66	3,191	657
-	-	-	-	-	-	2,675	419
312	73	390	205	65	6	1,311	544
-	-	-	-	-	-	795	125
-	-	-	-	-	-	776	-
-	-	-	-	-	-	484	23
36	5	42	9	7	2	400	140
103	66	112	78	17	13	364	228
83	69	49	94	28	22	308	318
123	26	11	17	102	26	289	132
46	6	53	20	9	1	179	63
38	8	44	30	7	1	146	96
-	-	-	-	53	30	53	30
741	253	701	453	288	101	7,780	2,118
$ (234)	$ (114)	$ (99)	$ (140)	$ 3	$ (35)	$ (4,589)	$ (1,461)



Homeowner
Protection Office

PO Box 11132 Royal Centre
Suite 2270
1055 W Georgia St
Vancouver BC
Canada V6E 3P3

604 646 7050 *telephone*
604 646 7051 *facsimile*
1 800 407 7757 *toll-free*
www.hpo.bc.ca *Web site*
hpo@hpo.bc.ca *email*